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TRENDS IN HOUSING AND HOUSING PROGRAMS

Talk by Woodward Kingman
President, Government National Mortgage Association
Department of Housing and Urban Development
at the 1972 National Agricultural Outlook Conference
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In 1949 Congress declared it to be our national policy to achieve as soon as feasible the goal of "A decent home and suitable living environment for every American family." In 1968 Congress quantified that goal by establishing 26 million housing units, including 6 million units for low and moderate income families, as the amount that should be built or rehabilitated over the next decade. Ambitious as this seemed when the present Administration came into office, it is with pride that we can report to you today that we are on target with respect to housing starts--which in 1971 exceeded two and a half million units for the biggest year in U.S. history. Of even more significance is the fact that economists are now forecasting that this production record will be matched or excelled in 1972.

But encouraging as the outlook appears to be from a strictly statistical point of view, it must be recognized that serious problems still remain in housing. There are still the problems of high cost in land, labor, materials, and money. Additional problems have surfaced in the quality of homes sold under certain subsidy programs, in the housing management of low-income projects, and in the increasing rates of foreclosure and abandonment. Solution to many of these housing problems necessarily involves the solution to complex social problems and can be worked out only in cooperation with many departments and agencies of both federal and local governments.

In this respect, HUD is particularly fortunate to have the wholehearted and effective cooperation of the Department of Agriculture in its efforts to focus on housing problems in the rural areas. For it is these over-all efforts to solve our complex housing problems which are presently shaping the current trends in housing and housing programs.

Need for Areawide Planning

Being especially concerned with rural areas, you are of course well aware of the continuing population shift from those areas to the metropolitan centers and the resulting adverse effects on both areas. For while the rural communities are depleted, the cities increasingly suffer from congestion, escalating land costs and a host of social problems all of which make housing a particularly difficult problem. It becomes more and more evident that the approach to the problem cannot be fragmented but must be on an areawide basis.

The Inner City. Nowhere is the problem of constructing decent housing more difficult than in the ghetto areas of our central cities where the high cost of land is compounded by a whole range of social and economic factors that constantly work toward the physical deterioration of the area. Nowhere is it more important that we concentrate our efforts than in the core of the cities, for like an apple, if the core rots, soon the whole thing is rotten. Yet despite all our efforts with billions of dollars spent and record numbers of low-income housing projects built, the decay of the inner cities goes on. With inadequate local educational and health and other public services, with fragmented local governments and a variety of separately-financed federal programs largely uncoordinated in such areas, the building of new housing projects has simply been inadequate to the task of checking the rotting process.

Secretary Romney is convinced that the housing problem of the central cities can only be solved by developing areawide solutions for problems which are areawide problems--and can only be cured by action based on joint Federal, State, metropolitan-wide, public and private effort.

The Option Process or "TOP." To implement an over-all attack on the inner city problems, Secretary Romney has convened meetings in five key cities to determine the extent to which available resources and leadership can be applied on a city-wide or "real city" basis, including the suburbs as well as the central core city. The objective is to make government and private leadership at all levels aware of their options--to alert them to the Federal programs available for solving the problems of pollution, transportation, drug addiction, education, and crime, as well as housing. Where HUD can find promising possibilities developing for area-wide approaches to the common problem, HUD is prepared to devote additional resources.

Comprehensive Planning. Similarly, the preparation of area-wide rather than individual community comprehensive plans is being encouraged for small, non-metropolitan communities by HUD in administering the Comprehensive Planning Assistance grant program. During FY 1971, \$3.4 million in comprehensive planning grants by HUD were awarded through the states to 155 non-metropolitan districts covering 791 counties in 34 states. This compares with \$1.4 million awarded to 61 districts in 18 states during FY 1969, the first year this program was funded.

HUD's Comprehensive Planning Program grant funds flowing through the states enable small towns and rural areas to pursue broad community development planning in such fields as housing, transportation, human resources, and community facilities. For example, during FY 1971 alone, approximately 50 percent or \$25 million of the 701 Program funds went for community development planning in areas with populations under 50,000.

Site Selection Process. In order to prevent a compounding of racial imbalance in ghetto areas and to implement the "scattered site" concept of low-income housing and other objectives, HUD put into effect on February 7 of this year its new regulations for housing project selection criteria. These regulations list eight criteria by which HUD will give priority for the funding of applications for public,

Section 235 and Section 236 subsidized, and rent supplement housing: (1) Need for low-income housing, (2) minority housing opportunities, (3) improved location for low-income families, (4) relationship to orderly growth and development, (5) relationship to physical environment, (6) ability of applicant to perform, (7) minority employment and business opportunities, and (8) sound housing management.

Although criteria No. 2 conforms to recent court decisions holding that HUD must take positive steps to further fair housing policies by opening up new nonsegregated housing opportunities for minorities, it is wrong to assume that the system therefore precludes further construction of HUD-assisted housing in the inner cities. Approval in areas of minority concentration is permitted in appropriate circumstances, such as an overriding need which cannot otherwise be met.

New Communities. A fast-growing program that will encourage utilization of land away from the central cities is HUD's New Communities Program. Under the program HUD is authorized to guarantee developers' bonds of up to \$50 million per project or a total of \$500 million for all such towns. They may be "satellite," "small-town growth center," "new-town in-town" or "free-standing" communities.

So far, financing in the amount of \$155 million has been committed for eight new communities. Applications for about fifty additional proposals are in various stages of review. The program is bringing orderly community development to metropolitan regions, and it is revitalizing depressed rural areas in a way that should help to stem the migration from rural to urban areas. Thus it is a program which attacks the problems of both the central cities and the rural areas.

The first HUD-approved new community development project--Jonthan, Minnesota--is twenty miles southwest of Minneapolis in rural Carver County. The New Community Development Corporation Board has promulgated a policy which would give priorities two types of new communities, such as the small town growth centers, which are under-represented in the list of applications and pre-application proposals received to date.

Measures have been taken to encourage or assist two major free-standing new communities in non-metropolitan areas which should have good chance of success. The Urban Planning Assistance program has been used to assist the State of North Carolina in undertaking the necessary regional and local planning for Soul City, to be located in depressed Warren County. In addition, a pre-application proposal has been submitted, with HUD encouragement, for the new community of Midland, Kentucky, which is a free standing new community to be built around a multi-million dollar Corps of Engineers Dan and Forest Service recreation facility. Also, an initial planning study grant has been approved for Pattonsburg, Missouri, to demonstrate how a small community could become a new community.

New Techniques in Building

Land is not the only cost problem in housing. Construction labor costs have been rising nearly 20% annually over the past few years. It is estimated that only 20% of the nation's population in either urban or rural areas can presently afford to buy a new home today. Realizing that entirely new concepts were needed, Secretary Romney launched Operation BREAKTHROUGH two and a half years ago to stimulate change throughout all phases of the housing industry.

Operation BREAKTHROUGH began with a HUD-sponsored competition among manufacturers who submitted 235 proposals for complete housing systems. Of these, HUD selected 22 winning designs to be used in nine prototype sites across the country. Construction is well underway on all sites, and all except one will be completed by the end of 1972. Two of the sites will be ready for occupancy within one month.

Building Codes. A significant success already achieved by Operation BREAKTHROUGH has been the reduction of the restrictive nature of building codes. Unfortunately the original purposes of the codes for protection of health and welfare have been altered so that built-in protection for certain products and unions and local economic interests have effectively prevented a real expansion of industrialized housing.

However, since the inception of BREAKTHROUGH, 20 states have passed either state-wide or industrialized housing codes which go a long way to ameliorate this problem. Some states have already included reciprocity clauses which will further aid the marketing of modules and other industrialized units.

Mobile Homes. It would be impossible to discuss trends in housing without mentioning the spectacular growth of the mobile home industry. Over two and a half million families in both urban and rural areas of the United States now use mobile homes as their only residence, and 80% of the homes sold are never moved again. Sales in 1971 totaled 492,000 and are expected to exceed that amount in 1972.

At the present time the total volume of FHA Title I Mobile Home Loans outstanding is only \$34 million, of which 51% is held by banks and 40% by savings and loans. Of the estimated \$10 billion in total outstanding mobile home loans, almost all have been financed conventionally through finance companies and banks because of the higher interest rate that they can charge normally about 12% or 13%. The 8% ceiling rate on FHA Title I loans has made them less attractive to investors, but we expect to overcome this problem very shortly by making the mobile home loans available to investors in the form of mortgage-backed securities guaranteed by the Government National Mortgage Association and discounted to reflect current market yields.

Trends in Subsidized Housing Programs

The achievement of our current housing production goals would not have been possible without the substantial increase in subsidized housing that has occurred in the past three years. Since this Administration took office, subsidized housing starts have totaled over one million units--which exceeds the total number of subsidized units started in all the previous 33 years of low-income housing programs in U.S. history. In 1971 alone, subsidized starts under the Department of HUD totaled 370,578 units, while subsidized starts under the Department of Agriculture totaled 75,948, for a combined total of 446,526 subsidized units.

During calendar year 1972 this same production level is expected to be maintained. For fiscal 1973, the HUD budget is requesting \$170 million for Section 235 under which 177,400 starts are anticipated; \$150 million for Section 236 with 249,000 starts anticipated; \$183 million for low rent public housing

with 110,000 units anticipated; and \$48 million for rent supplement with 32,100 starts anticipated. While no funds for these HUD programs will be allocated to the Department of USDA during the coming year, USDA's participation in the Section 235 program during 1969-70 was very effective in making the program better known in the rural areas.

Use of HUD Programs in Rural Areas. During fiscal years 1968-1970, an annual average of approximately 10% of the housing units which received assistance through HUD's FHA mortgage insurance programs or through the low rent public housing program were located in rural areas (defined as non-metropolitan counties having no city with a population of 25,000 or more). The 122,200 single-family homes built in rural areas represented about 9% of all HUD FHA-insured home mortgages. The proportion of public housing units located in smaller communities comprised one quarter of the national total, with one-sixth of all HUD aided public housing units provided to communities of under 10,000 population. The greatest increase in activity, however, has been in the construction of FHA-insured multi-family projects. FHA multi-family units built in rural areas increased from about 7% to 10% of the national total over the three-year interval (1968-1970). Multi-family construction increased more than 80% from 7,200 units in FY 1969 to 13,200 units in FY 1970. These recently compiled figures clearly indicate that many rural communities across the nation do find HUD housing programs especially suitable to meet their needs.

The nation's smaller communities also enthusiastically participate in the Open Space Land, Neighborhood Facilities and Urban Beautification programs and they are showing greater interest in the urban renewal program to cope with the problems of slums, blight, and obsolete use of land. Of the over 2,000 urban renewal projects funded by HUD, half are in cities of under 50,000 population, and, of these, 743 are located in communities under 25,000. Over 60% of all water and sewer facilities grants awarded through FY 1970 went to small communities under 25,000 population.

HUD will continue to strive to sustain and accelerate its housing production. But as Secretary Romney made clear in a recent speech to NAHB, "We must not simply play a numbers game. For we in HUD are convinced that the housing industry cannot today make a meaningful contribution if the standards of the housing we produce does not contribute to the quality of American life."

Emphasis on quality will therefore be the keystone of HUD's administration of the subsidized housing programs in the coming year. Through our own audits we are all too aware of the abuses that have crept into the subsidy programs--new and complex programs enacted in 1968 without having been adequately tested. Speculators and unscrupulous developers have taken advantage of these programs in certain areas. We have expended valuable time and effort to correct these abuses and to reorganize our field organization to assure that these mistakes do not occur again. As President Nixon said in his State of the Union message last month, ". . . our quest in the 70's is not merely for more, but for better. . . for a better quality of life for all Americans."

Counseling. Besides tighter administration of the programs and more careful screening of applicants, HUD is now initiating on a demonstration basis in 15 cities a counseling program for occupants under Section 235 and Section 236. The new program provides for a negotiated fee not exceeding \$100 for each applicant obtaining HUD mortgage insurance. The fee will be withheld from the sales proceeds at time of settlement--it will not be paid by the homebuyer. Counseling will include information on finances, housing selection, purchase procedures and property maintenance. Post-occupancy counseling will be available when needed. If the program proves effective, it will be expanded nationwide.

For those in lower income brackets eligible as homebuyers under assisted programs but not yet ready to discharge all ownership responsibilities, HUD will shift the emphasis from immediate purchase to purchase under the recently developed Turnkey III program using local public housing agencies. Under this program, the occupants are not given title to their dwellings initially, but are given the right to purchase them for the unpaid balance when they can afford it and are otherwise ready to do so.

Housing allowance program. In light of our experience in moving into full-scale production of complex subsidy programs without adequate testing, we will begin testing other approaches to meeting the nation's housing needs. We expect to give particular attention to studying housing allowances as a technique for providing an efficient and equitable approach to subsidizing low-income families in both urban and rural areas. One facet of the study will certainly be the relationship of such allowances to welfare reform.

Outlook for Unsubsidized Housing

While production of subsidized housing increased from 167,000 in 1968 to 447,000 in 1971, its percentage of total housing starts decreased from 33% to 23% during the last year. This was due to the strong resurgence of unsubsidized housing during the past year when mortgage money became plentiful and interest rates were lower. With HUD unsubsidized starts of 258,837, VA starts of 81,815, and conventional starts of 1,296,012, there was a total of 1,636,664 unsubsidized starts in 1971 compared with 1,033,740 in 1970.

While several factors contributed to the favorable mortgage market in 1971, probably the most significant was the unprecedented inflow of savings into the thrift institutions, amounting to over \$27 billion for S & L's and \$8 billion for the savings banks.

This level of inflow has continued through January but is expected to decrease to 60% or 70% of the 1971 level later this year. Fortunately, we have other relatively new sources of mortgage credit available now that should assure an ample supply of funds in 1972. These sources include: (1) Real estate investment trusts which invested about \$1.2 billion in mortgages and construction loans last year; (2) state housing finance agencies now organized in 20 states and currently providing about \$1.6 billion per year; (3) the newly created Federal Home Loan Mortgage Corporation (FHLMC) which last year provided about \$1 billion in mortgage credit; (4) increased use of FNMA and FHLBB which together provided just over \$5 billion during fiscal year 1971 and which began last month to provide secondary markets for conventional mortgages, and (5) recently developed programs of the Government National Mortgage Association (GNMA) which I would like to discuss briefly.

GNMA, organized in 1968 when it was decided that FNMA would move out of the government and into the private sector, took over the old Special Assistance functions of FNMA. Under this authorization, GNMA borrowed from the Treasury and purchased certain kinds of FHA and VA mortgages at less than market price--not charging as many discount points--in order to help the subsidized FHA housing programs. In order to minimize cash outlays, GNMA would immediately re-sell the mortgages at market price to its "tandem" partner FNMA, absorbing the difference between its purchase price and the FNMA market price as a subsidy of "points."

Then last August the Tandem Plan was expanded to include all FHA and VA unsubsidized residential mortgages as well. The purpose was to enable the FHA ceiling interest rate to remain at 7% and thus to help the economy by maintaining a high level of housing starts and stimulating employment. By providing \$2.5 billion in commitments for mortgages at 7% without charging more than four points (on new construction) or five points (on existing construction) at a time when eight or nine points were being charged in the market, GNMA accelerated a downward trend in mortgage interest rates.

While the Tandem Plan has had a significant and favorable impact on the mortgage interest rates, another GNMA program perhaps has an even more significant role in stabilizing the mortgage market. This is the Mortgage-Backed Securities program, designed to channel new sources of money into housing. This is vital in order to lessen the industry's dependence on the all-too-cyclical money supply of the banking system. And so GNMA has endeavored to develop a program which appeals to pension funds and other investors which invest in bonds but are not interested in mortgages because of the voluminous documentation, delinquencies, and foreclosure problems.

Under the program private mortgage lenders can pool mortgages issued by FHA, VA or Farmers Home Administration, and issue securities against them which are guaranteed by GNMA with the full faith and credit of the U. S. Government. Thus the investor receives a security which provides an assured

yield and is just one piece of paper, like a bond. The mortgages collateralizing the GNMA security are held by a custodian bank and serviced by the issuer of securities under a guaranty agreement with GNMA.

The acceptance of the program by the investment community has been most encouraging. In just two years since the first issue on February 19, 1970, a total of \$3.5 billion of GNMA "pass-through" securities have been sold to investors, many of whom had never been investors in mortgages previously.

The Proposed Department of Community Development

Both rural development and urban development have long been considered among the nation's highest domestic priorities. Unfortunately, with many Federal departments engaged in overlapping activities and programs in both areas, there has been a lack of truly coordinated effort. Meanwhile our rural areas have become less populated and less prosperous while the cities have grown more congested and more unmanageable. It is the President's conviction that this stems in part from the piecemeal manner in which the government responds to the needs of our rural and urban areas.

Let me cite one example of fragmented domestic programs. There are now, divided among seven different agencies, four major Federal programs of assistance for water and sewer facilities and eight smaller programs. The major ones are: HUD's basic water and sewer facilities program; the Farmers Home Administration's rural water and waste disposal facilities program; the Economic Development Administration's public facilities program; and, the Environmental Protection Agency's waste treatment and collection facilities program. Other programs are found in the Departments of Health, Education, and Welfare, the Interior, and Defense. Communities are frequently eligible for two or more of these water and sewer programs. Some degree of coordination is achieved through project-by-project joint funding arrangements and multiple applications for single projects, but this is doing it the hard way.

In his State of the Union message a year ago, the President called upon Congress to reorganize the Federal executive departments to make them more responsive to the needs of the people. He proposed the consolidation of eight Federal domestic departments into four. One of these departments would be the Department of Community Development. It would be concerned with the total physical development of a community, including programs that are now scattered through several departments. The mission of this new department will be to aid in the improvement of the quality of rural and urban communities as places in which people work and live. Combining community development assistance now scattered throughout several departments and agencies, the DCD would include the following:

- all of the housing programs of the Department of Housing and Urban Development (except for the college housing program),
- the highway construction and mass transit programs of the Department of Transportation,
- the rural electrification, public facilities and housing programs of the Department of Agriculture,
- programs of financial and planning assistance for public works and development facilities (except business development) now administered by the Economic Development Administration of the Department of Commerce, and that Department's Regional Action Planning Commissions, and
- the Community Action and "special impact" programs of the Office of Economic Opportunity.

Thus structured, the new Department of Community Development can concentrate the full weight of all Federal resources on complex local problems at the time and in the way most needed. For example, the merger of the Farmers Home Administration and HUD mortgage credit services will make possible a greatly expanded mortgage credit service for smaller communities.

Revenue Sharing

Directly related to this realignment of the executive departments is another vital part of the President's New American Revolution: the concept of Revenue Sharing. For like the new Department of Community Development, the proposal for revenue sharing is designed to make Federal programs more responsive to local needs. Its purpose is to reverse the trend by which the Federal government's awesome revenue-raising powers have given rise to an insensitive centralized bureaucracy controlling vast numbers of categorical grant-in-aid programs in which local citizens and officials have little voice.

General revenue sharing would eliminate the objectionable traits of the current categorical grant approach by taking a fixed percentage of the Federal income tax base (1.3%, or initially a one-year outlay of \$5 billion) and making it available without strings attached to states, cities, and counties based upon population and tax-raising capability.

Special revenue sharing will take some 130 categorical grant programs and replace them with \$11 billion of shared revenue which will be grouped under six headings and spent at the discretion of state and local officials but within the assigned purposes. Under the Community Development section, special revenue sharing will encompass the present categorical grant programs of urban renewal, model cities, neighborhood facilities, open space, and rehabilitation loans.

In summary, it must be conceded that despite all our progress in the attainment of housing production goals, there still remain serious problems in housing. As these in turn are inevitably part of the more complex social problems of the community, they must be attacked on an overall community-wide planning basis, employing all the resources of Federal, state and local governments working together. For this coordinated effort it is vital the President's proposals for the new Department of Community Development and for revenue sharing be implemented as soon as possible.





